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Government Sees Slower Economic Growth In FY 1991

Japan's economy will stay on an expansion path in the fiscal year that begins April 1 but will be unable to maintain the heady growth that has been its hallmark since pulling out of a slowdown in late 1986. That seems to be the lesson contained in Tokyo's latest economic outlook, accepted by the cabinet December 20. For the coming fiscal year the Economic Planning Agency expects that inflation-adjusted gross national product will grow 3.8 percent (see Table 1). American policymakers would love to have the U.S. economy turn in a performance nearly that good. To Tokyo, however, the figures are almost small enough to be termed an economic downturn and, if realized, would be the lowest growth since FY 1986.

The pattern of Japan's economic growth in the coming fiscal year will be similar to recent years. As in every fiscal year since 1986 inclusive, healthy expansion of domestic demand -- expected to add 4 percentage points to overall

Table 1: Government's FY 1991 Outlook for Real Gross National Product

	Actual			Estimated	Projected
	FY 1987	FY 1988	FY 1989	FY 1990	FY 1991
Real Gross National Product	4.9%	5.9%	4.8%	5.2%	3.8%
Consumer Spending	4.1	5.5	4.1	4.2	4.1
Residential Construction	26.3	4.8	0.7	8.4	-2.7
Private Capital Spending	8.6	16.6	14.1	11.7	6.8
Trade Surplus (billions of dollars)	94.0	95.3	70.0	57.0	56.0
Current Account Surplus (billions of dollars)	$84.5	$77.3	$53.4	$32.0	$30.0
Wholesale Prices	-2.0	-0.7	3.5	2.0	-0.1
Consumer Prices	0.5	0.8	2.9	3.1	2.4
Unemployment Rate (percent)	2.8	2.4	2.2	2.2	2.2
Yen-Dollar Exchange Rate	Y138.3	Y128.3	Y142.8	Y139.3	Y128.1

Source: Economic Planning Agency

growth in the April 1991-March 1992 period -- will more than offset continued sluggishness in the external sector, which in FY 1991 is projected to shave 0.2 point off GNP growth. Consumer spending is expected to grow almost as fast as in the current fiscal year, but plant and equipment spending -- the main growth engine in recent years -- is anticipated to expand at a much slower rate.

As an official set of numbers used as part of the budget process, the economic outlook typically generates squabbling among government agencies. The Ministry of International Trade and Industry consistently has held out for higher projected growth rates, while the Ministry of Finance usually favors one lower than the eventual compromise engineered by the Economic Planning Agency. To the extent that MOF is successful in getting a lower figure accepted than would otherwise be the case, it has to worry less about government borrowing. Should growth end up higher than expected, the deficit ends up lower than anticipated, a development about which few MOF officials would fret.

This argument would suggest that the figures have a downward bias. The numbers for FY 1990 support that view; the government's original projection of 4 percent real economic growth now looks extremely pessimistic next to the current expectation of a 5.2 percent gain or even year-old private forecasts of 4.9 percent growth. (For details of EPA's original outlook and private forecasts for FY 1990, see JEI Report No. 8A, February 23, 1990.)

If private forecasts are taken as a benchmark, however, FY 1991 promises to be worse, not better, than the government expects. On average, a cross section of business forecasters expect real growth of 3.6 percent in FY 1991 (see

Table 2). Some recent projections are considerably more pessimistic than even this average. For example, the Japan Economic Research Center in late December projected growth of only 2.9 percent in the coming fiscal year. Such a rate would equal that of FY 1986 and could imply rising unemployment; in contrast, the official outlook anticipates that joblessness will remain constant at 2.2 percent.

Table 2: Selected Private Economic Forecasts for FY 1991

(percent change unless otherwise indicated)

	Real GNP	Consumer Spending	Real Capital Spending	Current Account Surplus*
Research Institute of the National Economy	4.2%	4.6%	7.8%	$43.2
Daiwa Institute of Research	4.0	4.2	5.9	38.0
Kyowa Bank, Ltd.	4.0	4.4	6.9	42.8
Bank of Tokyo, Ltd.	3.8	4.1	7.5	36.2
Sanwa Research Institute	3.5	3.7	5.5	41.1
NLI Research Institute	3.4	4.3	6.8	35.0
Fuji Bank, Ltd.	3.3	3.9	5.8	16.0
Tokai Bank, Ltd.	3.0	4.1	5.5	31.0
Japan Economic Research Center	2.9	3.8	5.1	49.5
Average Forecast	3.6	4.1	6.3	37.0

*In billions of dollars.

JERC's pessimism notwithstanding, Japan's economy in the next 12 months is likely to remain relatively healthy when compared to those of other industrial nations. The Organization for Economic Cooperation and Development expects Japanese growth to decelerate markedly in 1991. According to the OECD's figures, Japan's economy recorded a sizzling 6.1 percent inflation-adjusted gain in calendar 1990, but growth will cool to a "mere" 3.7 percent expansion in 1991. OECD says that the U.S. economy grew by a mere 1 percent in real terms last year and will manage only a 0.9 percent rise this year. In all, real economic growth in the 24 industrial nations that comprise the OECD's membership is expected to fall from the 2.8 percent averaged in 1990 to 2 percent in 1991. The OECD's message appears to be that growth in Japan, while it will slow more sharply than elsewhere, will remain higher than in most other OECD countries. If the OECD is right, a year from now domestic concerns about Japan's sluggish economy could surprise foreign observers who might wonder how Japan manages to do so well.

Douglas Ostrom

FY 1991 Budget Boosts Spending

Responding to both domestic and foreign pressures, the cabinet of Prime Minister Toshiki Kaifu in late December quickly hammered out a spending plan

for the year beginning April 1, 1991 that boasts solid increases in outlays for public works, defense and foreign aid. The Ministry of Finance, however, kept a firm hand on the throttle in its drive to control the budget deficit and the outstanding national debt, but the pace will not be as slow as some MOF analysts had hoped. Expanded overall discretionary spending in both the general account and the Fiscal Investment and Loan Program actually should translate into a mildly stimulative fiscal policy in FY 1991, according to a MOF spokesman.

Under the budget plan adopted by the cabinet December 29 general account spending in FY 1991 is expected to grow 6.2 percent to more than Y70.3 trillion ($520.7 billion at Y135=$1.00), based on a 7.3 percent increase in mandatory outlays and a 5.3 percent rise in discretionary expenditures (see Table 1). Compared with FY 1990's initial budget, the government's plan for FY 1991 shows important shifts in spending patterns. A narrowing of the growth differential between discretionary and mandatory outlays is clear. In the FY 1990 initial budget nondiscretionary spending easily bested its counterpart, 17.2 percent to 3.9 percent. In the FY 1991 version the gap is modest. The upshot is that despite lower overall growth in projected general account outlays (6.2 percent in FY 1991 versus 9.7 percent in FY 1990), Tokyo hopes to expand discretionary spending at a faster rate in the coming fiscal year than in the current one.

Table 1: Summary of General Account Outlays, FY 1990-FY 1991

(in billions of yen)

	Initial FY 1990	Initial FY 1991	Change
Discretionary Items			
Social Security	Y11,614.8	Y12,212.2	5.1%
Education and Science	5,112.9	5,394.4	5.5
Pensions	1,837.5	1,808.4	-1.6
Defense	4,159.3	4,387.0	5.5
Economic Cooperation	784.5	845.9	7.8
Public Works	6,148.0	6,521.5	6.1
Disaster Reconstruction	66.7	68.2	2.2
Small Business Measures	194.3	195.0	0.3
Food Control Programs	395.2	373.2	-5.6
Energy Measures	547.6	592.1	8.1
Other	4,162.2	4,355.3	4.6
Infrastructure Investment	0.0	135.0	100.0
Reserves	350.0	350.0	0.0
Subtotal	35,373.1	37,238.2	5.3
Nondiscretionary Items			
Transfers to Local Governments	15,275.1	15,974.9	4.6
Debt Service	14,288.6	15,834.3	10.8
Transfer of NTT Proceeds to Public Works	1,300.0	1,300.0	0.0
Subtotal	30,863.7	33,109.2	7.3
Total	66,236.8	70,347.4	6.2

Important changes also are evident at the first level of spending disaggregation. Although only two categories registered declines in both initial budgets (pensions and food control programs), planned FY 1991 discretionary expenditure increases are greater overall and more evenly distributed. (See JEI Report No. 1B, January 5, 1990 for details of the initial budget for FY 1990.) Standouts include funds for energy programs (due partly to higher crude oil prices but also because of renewed interest in alternative energy development), public works projects, foreign aid and defense. (For details on the latter two, see articles in this issue.)

While it is not surprising that allocations for foreign economic cooperation and defense can be linked directly to external events, such a link also can be drawn for public works spending. Last summer Tokyo committed itself in the Structural Impediments Initiative talks with the United States to increase spending on domestic infrastructure over 10 years starting in FY 1991. At late January follow-up talks Tokyo will be able to point to a fatter public works budget in the upcoming fiscal year as proof that it is taking its SII promise seriously. A new five-year plan for infrastructure investment gives some detail to Tokyo's pledge to raise sharply public works spending (see Table 2).

Table 2: Revised FY 1991-FY 1995 Public Works Plan

(housing in thousands of units; all others in millions of yen)

	Original	Revised
Housing	6,700	7,300
Airports	Y1,920	Y3,190
Harbors	4,400	5,700
Water Supply	12,200	16,500
Sewage Treatment Facilities	1,910	2,830
Parks	3,110	5,000
Pedestrian Safety	1,485	2,015
Sidewalks	1,350	1,850
Other	135	165

Important developments also are clear in nondiscretionary spending categories for FY 1991. The growth of transfers from the central government to local governments is expected to assume a modest 4.6 percent pace in FY 1991, compared to the more active 14.3 percent slated for this fiscal year. This reflects an expected economic slowdown (see preceding article) and the consequent fall in tax receipts on which transfers are calculated. Perhaps more important to MOF budget analysts, however, is the sharp fall in the growth of interest payments on the national debt. FY 1991's projected 10.8 percent rise in debt service is well below FY 1990's initial 22.5 percent figure -- the result of the government's successful 10-year drive to cut issuance of deficit-financing bonds and finally eliminate borrowing to fund current operations. Interestingly, the government has budgeted Y1.3 trillion ($9.6 billion) in additional spending in FY 1991 funded by previous years' sales of government-held shares of Nippon Telegraph and Telephone Corp. It is not clear, however, how much longer MOF can count on this source of revenue (see JEI Report No. 45B, November 30, 1990).

On the revenue side expectations of slower economic growth in FY 1991 again have a striking impact (Table 3). Compared with the initial budget for the current fiscal year, tax and stamp receipts as well as nontax revenues both show smaller projected increases, 6.5 percent versus 13.7 percent and 22.5 percent versus 34.9 percent, respectively. The uncertainty of these forecasts increases when the contents of the government's tax package for FY 1991 is examined. Controversy over proposed property and other tax changes (see article in this issue) may prevent timely passage of the budget, much as opposition to the 3 percent consumption tax did in 1989 and 1990.

The pattern of spending in the general account is carried through to the government's second capital budget, the Fiscal Investment and Loan Program (see

Table 3: Summary of General Account Revenue Estimates, FY 1990-FY 1991

(in billions of yen)

	Initial FY 1990	Initial FY 1991	Change
Tax and Stamp Receipts	Y58,004.0	Y61,772.0	6.5%
Nontax Receipts	1,339.6	1,932.4	44.3
Proceeds from Sale of NTT Shares	1,300.0	1,300.0	0.0
Bonds	5,593.2	5,343.0	-4.5
Construction	5,593.2	5,343.0	-4.5
Deficit-Financing	0.0	0.0	0.0
Total	66,273.6	70,347.4	6.2

Table 4: Fiscal Investment and Loan Program Outlays, FY 1990-FY 1991

(in billions of yen)

	Initial FY 1990		Initial FY 1991	
	Amount	Change	Amount	Change
Housing	Y8,365.9	12.1%	Y9,474.5	13.3%
Other Social Infrastructure	4,222.0	-3.4	4,293.3	1.7
Welfare	851.9	15.7	1,026.1	20.4
Education	554.1	6.5	582.4	5.1
Small Business	4,337.8	3.9	4,494.5	3.6
Agriculture	876.0	-5.2	908.2	3.7
Land Conservation and Disaster Relief	328.5	-8.2	330.6	0.6
Roads	2,700.1	4.8	2,983.2	10.5
Transportation and Communications	2,304.1	-2.4	1,468.1	-36.3
Regional Development	682.5	0.9	709.0	3.9
Industry and Technology	796.5	5.0	937.7	17.7
Trade Promotion and Economic Cooperation	1,603.0	12.9	1,898.0	18.4
Capital Utilization	6,950.0	17.2	7,700.0	10.8
Total	34,572.4	7.1	36,805.6	6.5

Table 5: Fiscal Investment and Loan Program Sources, FY 1990-FY 1991

(in billions of yen)

	Initial FY 1990		Initial FY 1991	
	Amount	Change	Amount	Change
Industrial Investment Special Account	Y64.1	-24.8%	Y65.7	2.5%
Trust Fund Bureau Fund	28,453.3	5.9	29,134.9	2.4
Postal Savings	7,200.0	-15.3	8,800.0	22.2
Pension Contributions	5,540.0	28.5	6,430.0	16.1
Other Revenues	15,713.3	11.7	13,904.9	-11.5
Postal Life Insurance Fund	6,055.0	7.9	6,305.0	4.1
Government-Guaranteed Bonds and Borrowings	2,000.0	0.0	1,900.0	-5.0
Total	36,572.4	5.8	37,405.6	2.3

Table 6: Proposed and Approved Initial FY 1991 Discretionary Outlays

(in billions of yen)

	Proposed	Approved
Social Security	Y12,176.5	Y12,212.2
Education and Science	5,327.0	5,394.4
Pensions	1,762.4	1,808.4
Defense	4,372.9	4,387.0
Economic Cooperation	829.1	845.9
Public Works	6,521.5	6,521.5
Disaster Reconstruction	68.2	68.2
Small Business Measures	192.0	195.0
Food Control Programs	373.2	373.2
Energy Measures	578.9	592.1
Other	4,451.7	4,355.3
Infrastructure Investment	135.0	135.0
Reserves	350.0	350.0
Unallocated Expenses	100.0	--

Table 4). Foreign aid and social overhead capital clearly continue to receive top priority. Perhaps somewhat disappointing from the standpoint of the Bush administration, however, is the reduction in overall FILP growth from 7.1 percent to 6.5 percent. As for sources of FILP funds (Table 5) MOF's drive to cut government borrowing holds sway here as well.

The cabinet approved the FY 1991 spending plan five days after receiving a proposed package from the Finance Ministry. Some last-minute bargaining over the precise allotments for defense and foreign aid (see Table 6) reflected concerns of Japan's top policymakers over international events, such as the dire economic needs of Eastern Europe, the Soviet Union, China and the developing countries; the end of the Cold War; the threat of hostilities in the Persian Gulf; a possible disruption of oil supplies; slower U.S. economic growth; and

troubled multilateral trade talks. Concerns about the health of Japanese financial institutions (due to the sliding prices of domestic stocks and potentially unstable real estate markets), worries about inflation at home and the likelihood of an economic slowdown further complicated the budget process. Although the government acted swiftly to draft a FY 1991 budget, prospects for quick passage through the Diet are doubtful. Opposition parties are in control of the upper house and are examining carefully the government's defense and tax proposals. A pitched battle on these and other issues is a strong possibility.

Jon Choy

Tokyo Slows Defense Buildup Amid Global Changes

As anticipated, the cabinet of Prime Minister Toshiki Kaifu approved on December 20 a Y22.8 trillion ($168.9 billion at Y135=$1.00) five-year defense program ostensibly designed to satisfy Japan's security requirements in the post-Cold War era. The FY 1991-FY 1995 Medium-Term Defense Plan, which will go into effect April 1, generally will hold annual spending increases to 3 percent before adjustment for inflation, well below the 5.4 percent average yearly hike the Japan Defense Agency enjoyed during the FY 1986-FY 1990 plan. Although the budget for new weapons systems will decrease by an estimated 2.3 percent a year over the next five years, the overall plan allows for continued qualitative improvements, particularly in the areas of increased host-nation support and improved living and working conditions for Self-Defense Forces personnel (see Table 1). After three years the new plan may be subjected to a review to allow for adjustments in spending, equipment procurement and personnel in accordance with changes in the global security environment.

Table 1: FY 1991-FY 1995 Defense Program

Category	Amount (trillions of yen)	Percentage Distribution	Annual Growth (in percent)
Total Spending	Y22.75	100.0%	3.0%
Personnel Costs	8.50	37.4	0.6
Equipment Purchases	5.10	22.4	2.1
(purchases on contract basis)	(5.0)	---	(-2.3)
Rear Support	9.15	40.2	5.9

Source: Japan Defense Agency

Mr. Kaifu described the defense program as "very restrained." The scaled-back FY 1991-FY 1995 plan means that JDA will not get all that it had hoped for in the weapons area. Items the defense agency was able to secure from its "wish list" include 36 vehicle-mounted multiple-launch rocket systems, four AWACS (airborne warning and control system) and two Aegis destroyers (see Table 2). As a result of these planned big-ticket purchases, the pace of tank and

Table 2: Major Equipment Purchases, FY 1991-FY 1995

Item	Quantity to be Procured
Ground Self-Defense Force	
Tanks	132
Artillery Pieces	716
Multiple-Launch Rocket Systems	36
Armored Personnel Carriers	218
Ground-Based Antiship Missiles	40
Antitank Helicopters (AH-1S)	20
Transport Helicopters (CH-47J)	14
Surface-to-Air Guided Missiles (improved HAWK)	2.5*
Maritime Self-Defense Force	
Destroyers	10
Submarines	5
Auxiliary Ships	20
Antisubmarine Patrol Aircraft (P-3C)	8
Antisubmarine Helicopters (SH-60J)	36
Minesweeping Helicopters (MH-53E)	1
Air Self-Defense Force	
Fighter Aircraft (F-15)	42
Transport Aircraft (C-130H)	3
Transport Helicopters (CH-47J)	2
AWACS	4
Intermediate Training Aircraft (T-4)	90
Surface-to-Air Guided Missiles (Patriot)	1*

*Missile groups

Source: Japan Defense Agency

destroyer purchases will slow. That prospect, combined with a relatively faster timetable for scrapping obsolete equipment, means the total number of tanks owned by the Ground Self-Defense Force will decrease by FY 1996 from the current 1,205 to 1,134, while the number of Maritime Self-Defense Force destroyers will drop from 62 to 58.

JDA officials emphasize, however, that actual combat capabilities will remain at about the same level because the advanced Type-90 tank and the Aegis destroyer will more than compensate for the retirement of their predecessors. This reassurance no doubt was aimed at the Pentagon, which since the early 1980s has urged Japan to acquire not only additional but more sophisticated equipment to better realize its commitment to defend the area 1,000 nautical miles east and south of the home islands. Japanese defense planners also pointedly note for the benefit of American observers that the planned AWACS and Aegis procurements are in response to Washington's request that Tokyo purchase more systems off-the-shelf from U.S. defense contractors.

Although JDA originally wanted the new defense program to include authorization for tanker-refueling aircraft and over-the-horizon radar, projected

economic constraints as well as domestic and regional concerns that the high-priced items would endow Japan with too much of a power projection capability persuaded officials to delist them. The defense agency will continue feasibility studies of these two hardware items during the next five years with an eye toward possible future deployment.

The FY 1991-FY 1995 plan also does not include money to purchase the FSX fighter support aircraft. This, however, should not affect the joint development effort between Mitsubishi Heavy Industries, Ltd. and General Dynamics Corp. since design and development problems have pushed the plane's delivery date well into the late 1990s.

While reining in spending on weapons systems, the plan seeks to improve the standard of living for SDF members, primarily as a way to improve recruitment. The Y8.5 trillion ($63 billion) earmarked for personnel-related expenses will go toward upgrading living and working quarters and recreational facilities. Responding to American requests for greater sharing of the mutual defense burden, Japanese defense planners also reordered the slimmed-down budget to enable Tokyo to cover approximately 50 percent of the roughly $6 billion annual cost of maintaining U.S. forces in Japan, a 10 percentage point increase (see JEI Report No. 48B, December 21, 1990).

In greeting Tokyo's defense program for the next five years the Department of Defense stated December 20 that the Japanese government's decision to increase host-nation support, in particular, was "very much welcomed and appreciated." Commenting on the 3 percent projected average annual increase in defense spending, the Pentagon pointed out that, in contrast, "other countries' defense budgets are decreasing."

Congress may not react as favorably to Japan's scaled-back program. Before the 101st Congress adjourned in October 1990, legislators passed a non-binding resolution that called on Japan to assume 100 percent of the yen costs associated with stationing U.S. troops there. Tokyo's failure to do so, the resolution stated, would precipitate a "rapid" withdrawal of American forces from Japan. Congress may not be appeased by Tokyo's plan to shoulder about 50 percent of the overall expenses, particularly if war breaks out in the Persian Gulf and the Japanese government caps its allied contribution at a strictly financial level, namely the $4 billion already pledged.

Judging by the government's action on the FY 1991 defense budget, JDA appears to be off to a good start in implementing its new five-year plan. The cabinet December 29 approved Y4.4 trillion ($32.5 billion) for defense spending in the year beginning April 1, up 5.5 percent from the current fiscal year's initial budget. Adopting its characteristic tight-fisted approach to budget talks, the Ministry of Finance initially proposed a 5.1 percent rise; JDA was able to realize the higher increase through dogged bargaining.

The 5.5 percent increase, which exceeds the 3 percent average annual growth envisioned in the five-year plan, is needed to cover higher personnel-related costs and payment of earlier hardware contracts, according to JDA explanations. The FY 1991 budget will enable JDA to contract for a third Aegis destroyer for the MSDF fleet, one conventional destroyer, two F-15 fighter aircraft, two T-4 trainer aircraft and 28 Type-90 tanks on top of the purchasing list approved earlier. Some reports indicate that what may have clinched the

higher spending increase for the defense agency was JDA director general Yozo Ishikawa's strong argument for money to improve living standards for SDF members.

Barbara Wanner

Japan Outlines Gulf Support; More Aid For Region Anticipated

Criticism of Tokyo's contribution to peacekeeping efforts in the Middle East flared again in mid-December as the Pentagon announced that only about half of the $8 billion pledged by Japan and other U.S. allies had been delivered. The announcement spurred legislators to examine the costs of Operation Desert Shield and allied contributions to the peacekeeping effort both independently and in a January 4 briefing for the House Budget Committee. Meanwhile, Japan's cabinet submitted to the Diet a FY 1991 foreign aid budget that is 8 percent higher than the initial FY 1990 figure, an increase due in part to the anticipated need to provide more aid to countries adversely affected by the Middle East crisis.

Last September Tokyo pledged $2 billion for logistical support of the multinational peacekeeping effort in the Persian Gulf and $2 billion for economic aid to frontline countries (see JEI Report No. 36B, September 21, 1990). In response to Washington's claims that Tokyo's contributions were coming up short of this amount Foreign Ministry officials provided figures in mid-December showing that while disbursements toward the peacekeeping effort have not yet reached the total pledged last September, assistance directed to American forces in the Persian Gulf exceeded Pentagon-generated estimates of roughly $476 million in cash and in-kind support.

Japanese officials reported that as of mid-December about $600 million had been spent or contracted for logistical support, including: roughly $100 million of in-kind aid, such as vehicles, office and desalination equipment, and construction materials; approximately $430 million paid to the Department of the Treasury for troop transportation costs; and $70 million for transportation cooperation, specifically for chartering cargo-carrying ships and aircraft. Of the $2 billion pledged in assistance to frontline countries $950 million had been allocated or disbursed, the Foreign Ministry said. This included $600 million in emergency commodity loans. Of that amount $200 million had gone to Turkey and $100 million was being disbursed to Jordan; an exchange of notes was being finalized that would provide $300 million to Egypt.

The Foreign Ministry reported that the additional $350 million in assistance to the frontline countries included: $150 million for an "Industry and Trade Policy Adjustment Loan" to Jordan; $100 million to Egypt for a cement factory and $100 million to Turkey for the expansion of a bridge. Japanese officials also outlined Tokyo's evacuee relief efforts, of which $22 million was shared by the International Committee of the Red Cross, the United Nations Disaster Relief Coordinator's Office, and the International Organization for Migration. In addition, $900,000 was provided to Jordan for relief materials, while Japanese flights carried about 800 evacuees out of the region.

Japan's deputy chief of mission in Washington, Takayuki Kimura, linked delays in contributions backstopping the allied peacekeeping effort to the

Pentagon's slowness in producing lists of needed equipment and to the time span involved in procuring equipment. He noted that approximately $400 million soon would be spent on additional nonmilitary gear for the multinational forces in the Middle East, press reports said. Moreover, Mr. Kimura added that the roughly $1 billion remaining of the $2 billion pledge was included in the supplemental budget for FY 1990, approved by the Diet in mid-December (see JEI Report No. 48B, December 21, 1990).

The Foreign Ministry's explanations may do little to ease resentment in Washington regarding Japan's help in defraying the enormous cost of the U.S. military mission in the Middle East. Delays in disbursement and the absence of Japanese personnel in the Persian Gulf continue to be sore points on Capitol Hill and in the media. Additional criticism has focused on the fact that Japan's aid to frontline states is in the form of loans rather than grants and that some of the loans are designated for specific projects.

Some in Congress and the press have accused the Bush administration of not demanding enough of U.S. allies. House Majority Leader Richard Gephardt (D, Mo.) and Rep. Charles Schumer (D, N.Y.) in mid-December warned that Congress would look askance at authorizing further funds for Operation Desert Shield without additional commitments from American allies. Administration officials have indicated that they have made their expectations of further assistance clear to U.S. allies in ongoing talks. Although the White House reportedly has not requested additional support from Japan in its upcoming fiscal year, Foreign Minister Taro Nakayama recently indicated that Tokyo would consider providing further funds for the gulf operation. The foreign minister is scheduled to discuss the Middle East crisis with Secretary of State James Baker during his January 13-17 visit to the United States.

Several Washington observers suggest that the White House wants to secure additional financial support from U.S. allies before congressional battles begin over the cost of Operation Desert Shield. Administration officials canceled scheduled testimony for a January 4 House Budget Committee briefing called to examine costs and allied contributions to the U.S.-led multinational forces in the Persian Gulf. Although the General Accounting Office told the House panel that even without hostilities the cost of the mission would exceed $30 billion in the current fiscal year, uncertainties abound over how much Operation Desert Shield will cost.

Meanwhile, Tokyo has earmarked a significant increase in its official development assistance budget for FY 1991. In recent years Japan has sought to supplement its defense spending and contribute toward burdensharing through its foreign aid program. In 1988 the government announced a fourth medium-term foreign aid plan, which set out to increase ODA commitments to $50 billion between 1988 and 1992 (see JEI Report No. 47A, December 14, 1990). The initial FY 1991 budget for ODA is set at Y883.1 billion ($6.5 billion at Y135=$1.00), an 8 percent increase from the comparable FY 1990 number.

The Foreign Ministry was able to wrest the 8 percent increase after a struggle with the Ministry of Finance, which argued that a lower rate of growth would be sufficient to meet the five-year foreign aid target. The Foreign Ministry originally proposed a 10.1 percent budget hike in contrast to the 5.8 percent rise recommended at one point by the Finance Ministry. The expected needs of countries adversely affected by the Middle East crisis buttressed the

NOTE

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